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THE CLEARING OF CHECKS AT PAR¹

W. M. VAN DEUSEN

National Newark Banking Co., Newark, N. J.

I WISH to draw your attention for a few minutes to that part of the proposed currency bill which provides for the "parring" of certain checks; I refer to the latter portion of section 17.

The immense volume of checks used in the commerce of the country makes it appropriate that some action should be taken in the proposed revision of the currency to improve the methods at present adopted for their collection; and the insertion of the provision for their collection in the note-issue section of the bill is also most appropriate, for in a general way the problems involved are similar. Checks, like bank notes, are a substitute for money and perform their function most perfectly when their circulation is as free as possible and their redemption is easily and promptly accomplished. If the proposed section of the currency bill will aid the circulation and redemption of checks it will greatly benefit all those engaged in the commerce of our country.

The checks on country banks are at present collected at great expense, often by roundabout routes and with much unnecessary labor. The reason for their being handled other than directly is to be found largely in the charges made for their collection by the banks on which they are drawn. These charges, usually called exchange, range from $\frac{1}{10}$ to $\frac{1}{2}$ of one per cent of the amount of the checks and occasionally go higher through the practise of some banks charging so much for each check instead of remitting for the total of all the checks enclosed in a letter, with a minimum charge of from 10 to 25 cents per check even though it may be for only a dollar. These charges are often not affected by competition

¹ Discussion at the meeting of the Academy of Political Science, October 15, 1913.

because of an agreement among the banks of a city fixing the rates and even agreeing to pay exchange to the bank on which the check is drawn. These charges are not always made in cash, but are secured by an arrangement on the part of the collecting bank to remit for the checks at certain periods, in the meantime holding and using the money. These charges are defended on the ground that it costs the remitting bank to provide funds in the large centers to cover remittances for the checks, and that compensation should be made for the postage and labor of handling remittances. It is also claimed that a check is payable at the bank on which it is drawn and that this provision of the bill would make it payable elsewhere,—that is, at the office of the federal reserve bank. The result of this expense of collection is that many banks send their checks by devious routes in the hope of saving or lessening the charges. Consequently it is often a considerable time before a check is presented for redemption, and in the meantime fictitious balances are created in the banks through which it passes, and much unnecessary work is done. Often the reserve balances of banks held by them in reserve cities are used entirely to compensate the reserve city bank for the collection of the various checks of the depositing bank, thus confusing the subject of reserves with that of compensation for other services.

Many attempts have been made to find a remedy for the situation which has developed in the handling of these checks. The most successful of all is the system used in Boston for the collection of New England checks, which is modeled after the old Suffolk system for the redemption of bank notes. I have not time to go into the details of this system but must note a few of its main features. The checks on the country banks of New England received by the Boston banks are sent by them each day to the clearing house, which sorts them according to the bank on which they are drawn and sends to each bank all checks drawn on it. The country bank on receipt of its checks sends a par remittance to the Boston clearing house for the checks it receives, the remittance being in either Boston or New York exchange or in currency at the

expense of the clearing house. Payment for the country checks is made to the Boston bank on the second day after it sends them to the clearing house. The result is that almost all of the checks on New England banks, especially those used in New England, are presented for payment within a few days after they are drawn, and at a minimum of expense. As a consequence New England checks are more readily received throughout the country than checks on any other section. Practically all the banks in New England have agreed to the Boston clearing-house arrangement. There have been attempts made to use the Boston system in other parts of the country, and while none of these attempts have attained the success of the Boston arrangement, yet all of them have resulted in an improvement over the old conditions. A somewhat similar system for clearing country checks is in use in London.

The new currency bill proposes that each regional bank shall act as a clearing house for its member banks and shall also take on deposit at par checks on other regional banks. If this part of the bill can be put into successful operation and the banks of the country in large numbers join the regional reserve banks, it will result in the division of the country into a number of collection districts and the checks on the banks in those districts can be handled in much the same way that New England checks are now handled in Boston. This cannot help being of benefit to the banks as a whole and to the commerce of the country. It would mean the direct and speedy collection of checks, would reduce the labor caused by handling checks many times oftener than necessary, and would eliminate false balances. The cost of providing cover in the reserve center for checks drawn on a country bank would be less than now on account of the proximity of the regional bank or agency. The success of this method of collecting checks would depend largely on the question whether most of the banks of the country found it to their advantage to join the regional banks, as this system of collecting the checks would be of little value if only a moderate proportion of them could be handled in this way.